Dr. Pixley Isaka Ka Seme Local Municipality
(Registration number MP304)

General Information

Legal form of entity	Municipality
Councillors Information	
Executive Mayor	Malatsi PV
Speaker	Luhlanga ZH
Chief Whip	Mazibuko TA
Mayoral Committee	Mavuso BG Dakile TP
Councillors	Mhlanga BJ Mdebele MS Mazibuko PM Dludlu ZE Madonsela EM Motha MS Shabangu OT Nxumalo SN Hlakutse NE De Jager L Mazibuko FJ Botha ACE Ngwenya GO De Kock PRR Du Plooy CH Mbokane TE
Accounting Officer	Malebye PB
Chief Finance Officer	Mamogale PP
Business address	Dr Nelson Mandela and Adelaide Tambo Street Volksrust 2470
Postal address	Private bag X 9011 Volksrust 2470
Bankers	First National Bank
Auditors	Auditor General of South Africa Registered Auditors

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The reports and statements set out below comprise the annual financial statement presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statement and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statement fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statement and was given unrestricted access to all financial records and related data.

The annual financial statement have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statement are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statement. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statement. The annual financial statement have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statement set out on pages 6 to 67, which have been prepared on the going concern basis, were approved by the on 31 August 2015 and were signed on its behalf by:

Accounting Officer
Mr PB Malebye

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 5 umber of meetings were held.

Name of member	Number of meetings attended
I Mpatlanyane (Chairperson)	5
M Mothamaha	5
M Mahonga	5

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the Municipality over financial risk and risk management are applied to provide cost effective assurance that assets and working capital are effectively managed, in line with the PFMA, MFMA, Treasury regulations requirements and any ther applicable legislation. Based of the reports presented to the audit committee internal audit and audit Committee meetings, there was concern of the adherence and effectiveness to the controls in place.

The following were areas of concerns

High number of findings
Slow response to audit findings
Inadequate follow-up, monitoring and resolving of auding findings
Poor response to reports of the Internal Audit unit

Risk Management

The Municipality has identified operational risks which were aligned to the objectives of the municipality. These risks were evaluated in term of the impact towards the attainment of the deliverables of the municipality. The risk management process is not yet fully effective, and the municipality needs to make significant progress towards the improvement of the risk management process. The audit committee will continue to monitor progress made in this regard.

The absence of an official responsible for risk management is a contributing factor to the risk management process not being fully effective.

The adequacy, reliability and accuracy of financial reporting and information

The committee noted concerns around the inadequacy and reliability and accuracy of financial reporting during the course of the year. General staff shortages and changes in the senior finance staff had a negative impact in the functioning of the finance department. The situation has subsequently stabilised and indications are that it will improve going forward.

The committee notes and welcome the appointment of a qualified Chief Financial Officer, which has taken place in the 2015 financial year.

Accounting policies

The Audit committee reports that the accounting policies adopted by the municipality are adequate to account and fairly present the financial affairs of the municipality when properly implemented..

Audit Committee Report

Evaluation of annual financial statement

The audit committee has:

- reviewed the accounting accounting policies and practices;
- reviewed the municipality compliance with legal and regulatory provisions;

The Audit Committee reviewed the Annual Financial Statement of the municipality, which for the first time in recent history, were prepared internally finance section before submission to the Auditor general.

The audit committee was able to satisfy itself the annual financial statement complied with required legislation and Circular 50 related to the preparation of the Annual Financial Statements and the Audit file.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

The audit committee noted with concern the shortage of staff in the internal audit unit and has advised accordingly. Other than the shortage of staff, the Audit Committee is satisfied with the work of the internal audit unit and the progress made in implementing the 2014/15 approved operational audit plan.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

The Audit Committee has reviewed the Municipality’s implementation plan for the audit issues raised in the audit report and has raised some concerns of the limited progress made.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statement, and are of the opinion that the audited annual financial statement should be accepted and read together with the report of the Auditor-General of South Africa

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Chairperson of the Audit Committee

Date: ____________________

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Other financial assets	6	716,487	651,835
Inventories	8	1,599,842	1,630,074
Other receivables from exchange transactions	9	2,968,897	4,670,761
Receivables from non-exchange transactions	10	7,829,842	15,340,587
Receivables from exchange transactions	11	37,995,798	95,318,185
Cash and cash equivalents	12	55,399,793	46,597,836
CURRENT ASSETS		**106,510,659**	**164,209,278**
Non-Current Assets			
Investment property	2	110,108,517	111,282,566
Property, plant and equipment	3	603,431,455	608,240,699
Intangible assets	4	850,265	865,960
Heritage assets	5	3,485,999	3,485,999
NON-CURRENT ASSETS		**717,876,236**	**723,875,224**
Non-Current Assets		717,876,236	723,875,224
Current Assets		106,510,659	164,209,278
Total Assets		**824,386,895**	**888,084,502**
Liabilities			
Current Liabilities			
Employee benefit obligation	7	4,193,000	1,763,000
Unspent conditional grants and receipts	13	1,987,030	2,779,683
Provision for leave pay	14	6,485,254	5,067,877
Provision for rehabilitation of landfill site	15	379,705	320,183
Payables from exchange transactions	17	26,703,458	27,051,093
VAT payable	18	2,590,118	161,688
Consumer deposits	19	1,629,117	4,655,350
CURRENT LIABILITIES		**43,967,682**	**41,798,874**
Non-Current Liabilities			
Employee benefit obligation	7	16,082,000	17,543,000
Provision for rehabilitation of landfill site	15	20,178,324	19,917,663
Provision for water supply	16	76,131,933	65,278,181
NON-CURRENT LIABILITIES		**112,392,257**	**102,738,844**
Non-Current Liabilities		112,392,257	102,738,844
Current Liabilities		43,967,682	41,798,874
Total Liabilities		**156,359,939**	**144,537,718**
Assets		824,386,895	888,084,502
Liabilities		(156,359,939)	(144,537,718)
Net Assets		**668,026,956**	**743,546,784**
Reserves			
Other NDR		1,109,246,447	1,109,246,447
Accumulated surplus		(284,191,699)	(250,402,959)
Total Net Assets		**825,054,748**	**858,843,488**

Dr. Pixley Isaka Ka Seme Local Municipality

(Registration number MP304)
Annual Financial Statement for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Service charges	22	93,140,227	80,787,703
Rental of facilities and equipment		21,627	21,059
Interest received - investment	28	3,088,656	2,617,873
Interest received (trading)		14,641,563	13,748,526
Fiar value adjustment on other financial assets		64,651	169,886
Miscellaneous other revenue		2,529,566	3,594,551
		-	-
REVENUE FROM NON-EXCHANGE TRANSACTIONS		-	-
Government grants & subsidies	23	112,941,530	129,385,396
Property rates	21	30,129,008	20,681,119
Property rates - penalties imposed		140	412
Fines, Penalties and Forfeits		577,897	915,548
Licence and permits		5,713,506	5,133,133
Total revenue		**262,848,371**	**257,055,206**
Expenditure			
Employee related costs	25	(71,039,936)	(65,152,250)
Remuneration of councillors	26	(6,981,942)	(6,517,270)
Debt Impairment	27	(132,912,491)	(35,492,868)
Depreciation and amortisation	29	(33,871,552)	(26,377,490)
Repairs and maintenance		(10,049,955)	(10,157,568)
Contracted services	31	(3,343,842)	(5,888,788)
Transfers and Subsidies	32	-	(2,030,111)
Bulk purchases	33	(48,845,889)	(42,728,329)
General Expenses	24	(33,834,277)	(29,961,759)
Total expenditure		**(340,879,884)**	**(224,306,433)**
Loss on disposal of assets and liabilities		(263)	(1,902,584)
Actuarial gains/losses	7	566,000	328,000
Realisation of revaluation reserve		16,917,139	14,980,880
		17,482,876	**13,406,296**
(Deficit) surplus before taxation		(60,548,637)	46,155,069
Taxation		-	-
(Deficit) surplus for the year		**(60,548,637)**	**46,155,069**

Statement of Changes in Net Assets

Figures in Rand	Revaluation Reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	1,109,246,447	(308,415,924)	800,830,523
Adjustments			
Prior year adjustments	(11,779,017)	64,051,878	52,272,861
Balance at 01 July 2013 as restated*	**1,097,467,430**	**(244,364,046)**	**853,103,384**
Changes in net assets			
Surplus for the year	(14,980,880)	46,155,069	31,174,189
Total changes	(14,980,880)	46,155,069	31,174,189
Opening balance as previously reported	1,082,486,550	(198,208,977)	884,277,573
Adjustments			
Prior year adjustments	-	(25,434,085)	(25,434,085)
Balance at 01 July 2014 as restated*	**1,082,486,550**	**(223,643,062)**	**858,843,488**
Changes in net assets			
Surplus for the year	(16,917,139)	(60,548,637)	(77,465,776)
Total changes	(16,917,139)	(60,548,637)	(77,465,776)
Balance at 30 June 2015	**1,065,569,411**	**(284,191,699)**	**781,377,712**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		66,329,531	74,643,595
Grants		110,587,469	112,678,730
Interest income		4,832,253	3,398,832
Licensing and permits		19,182,197	21,106,176
Other cash item		863,125	514,544
		201,794,575	212,341,877
Payments			
Employee costs		(76,117,138)	(73,095,368)
Suppliers		(47,522,270)	(68,211,652)
Bulk purchases		(41,167,274)	(34,987,900)
		(164,806,682)	(176,294,920)
Total receipts		201,794,575	212,341,877
Total payments		(164,806,682)	(176,294,920)
Net cash flows from operating activities	34	**36,987,893**	**36,046,957**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(29,564,037)	(31,025,901)
Proceeds from sale of property, plant and equipment		1,807,306	-
Purchase of other intangible assets	4	(429,207)	(1,298,939)
Purchases of other assets		-	(1,490,090)
Net cash flows from investing activities		**(28,185,938)**	**(33,814,930)**
Cash flows from financing activities			
Proceeds on share issue		-	-
Net increase/(decrease) in cash and cash equivalents		**8,801,957**	**2,232,027**
Cash and cash equivalents at the beginning of the year		46,597,836	44,365,809
Cash and cash equivalents at the end of the year	12	**55,399,793**	**46,597,836**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	77,945,003	-	**77,945,003**	93,140,227	**15,195,224**	1
Rental of facilities and equipment	122,401	-	**122,401**	21,627	**(100,774)**	2
Interest received (trading)	8,561,328	-	**8,561,328**	14,641,563	**6,080,235**	4
Fair value adjustment	-	-	**-**	64,651	**64,651**	
Miscellaneous other revenue	1,994,317	-	**1,994,317**	2,529,566	**535,249**	5
Interest received - investment	2,305,000	-	**2,305,000**	3,088,656	**783,656**	3
Total revenue from exchange transactions	**90,928,049**	**-**	**90,928,049**	**113,486,290**	**22,558,241**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	33,265,095	-	**33,265,095**	30,129,008	**(3,136,087)**	
Property rates - Penalties imposed	-	-	**-**	140	**140**	7
Transfer revenue						
Government grants & subsidies	122,760,204	-	**122,760,204**	112,941,530	**(9,818,674)**	6
Fines, Penalties and Forfeits	-	-	**-**	577,897	**577,897**	
Licence and permit	18,828,775	-	**18,828,775**	5,713,506	**(13,115,269)**	7
Total revenue from non-exchange transactions	**174,854,074**	**-**	**174,854,074**	**149,362,081**	**(25,491,993)**	
'Total revenue from exchange transactions'	90,928,049	-	**90,928,049**	113,486,290	**22,558,241**	
'Total revenue from non-exchange transactions'	174,854,074	-	**174,854,074**	149,362,081	**(25,491,993)**	
Total revenue	**265,782,123**	**-**	**265,782,123**	**262,848,371**	**(2,933,752)**	
Expenditure						
Personnel	(76,241,260)	-	**(76,241,260)**	(71,039,936)	**5,201,324**	8
Remuneration of councillors	(7,256,280)	-	**(7,256,280)**	(6,981,942)	**274,338**	
Depreciation and amortisation	(28,823,040)	-	**(28,823,040)**	(33,871,552)	**(5,048,512)**	
Bad debts written off	(44,019,957)	-	**(44,019,957)**	(132,912,491)	**(88,892,534)**	
Repairs and maintenance	(17,442,766)	-	**(17,442,766)**	(10,049,955)	**7,392,811**	9
Bulk purchases	(37,526,635)	-	**(37,526,635)**	(48,845,889)	**(11,319,254)**	
Contracted Services	(3,590,924)	-	**(3,590,924)**	(3,343,842)	**247,082**	
Transfers and Subsidies	(13,262,274)	-	**(13,262,274)**	-	**13,262,274**	
General Expenses	(37,720,903)	-	**(37,720,903)**	(33,834,277)	**3,886,626**	10
Total expenditure	**(265,884,039)**	**-**	**(265,884,039)**	**(340,879,884)**	**(74,995,845)**	
	265,782,123	-	**265,782,123**	262,848,371	**(2,933,752)**	
	(265,884,039)	-	**(265,884,039)**	(340,879,884)	**(74,995,845)**	
Operating deficit	**(101,916)**	**-**	**(101,916)**	**(78,031,513)**	**(77,929,597)**	
Loss on disposal of assets and liabilities	-	-	**-**	(263)	**(263)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actuarial gains/losses	-	-	-	566,000	**566,000**	
	-	**-**	**-**	**565,737**	**565,737**	
	(101,916)	-	**(101,916)**	(78,031,513)	**(77,929,597)**	
	-	-	**-**	565,737	**565,737**	
Deficit before taxation	**(101,916)**	**-**	**(101,916)**	**(77,465,776)**	**(77,363,860)**	
Surplus before taxation	(101,916)	-	**(101,916)**	(77,465,776)	**(77,363,860)**	
Taxation	-	-	**-**	-	**-**	
Deficit for the year from continuing operations	**(101,916)**	**-**	**(101,916)**	**(77,465,776)**	**(77,363,860)**	
Capital budget	(30,314,180)	-	**(30,314,180)**	(30,314,180)	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(30,416,096)**	**-**	**(30,416,096)**	**(107,779,956)**	**(77,363,860)**	

Accounting Policies

1. Presentation of Annual Financial Statement

The annual financial statement have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statement have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statement, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statement are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statement have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statement, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statement and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statement. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

The provision for doubtful debt is determined by taking in to account the payment rate by debtor, indigent status and whether the debtot has credit balance at financial year end.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	Unlimited
Buildings	30 years
Furniture and fixtures	7 - 10 Years
Motor vehicles	5 -7 years
Office equipment	3 - 7 Years

Accounting Policies

1.5 Property, plant and equipment (continued)

IT equipment	3 - 5 years
Infrastructure	
• Roads and paving	10 - 30 years
• Electricity	20 - 30 Years
• Water	15 - 20 Years
• Sewerage	15 - 20 Years
Bins and containers	5 -10 Years
Specialised vehicles	20 Years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Accounting Policies

1.7 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 - 5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statement.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Accounting Policies

1.8 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

1.9 Financial instruments (continued)

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

Accounting Policies

1.9 Financial instruments (continued)

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and bank	Financial asset measured at fair value
Other financial assets	Financial asset measured at fair value
Trade receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.9 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity’s own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

Accounting Policies

1.13 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.13 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and .

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.16 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.17 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Accounting Policies

1.20 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.23 Use of estimates

The preparation of annual financial statement in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statement are disclosed in the relevant sections of the annual financial statement. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statement and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statement as the recommended disclosure when the annual financial statement and the budget are on the same basis of accounting as determined by National Treasury.

1.27 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Accounting Policies

1.28 Events after reporting date (continued)

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statement

Figures in Rand	2015	2014

Notes to the Annual Financial Statement

Figures in Rand

2. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	112,403,835	(2,295,318)	110,108,517	112,403,835	(1,121,269)	111,282,566

Reconciliation of investment property - 2015

	Opening balance	**Depreciation**	**Total**
Investment property	111,282,566	(1,174,049)	110,108,517

Reconciliation of investment property - 2014

	Opening balance	**Depreciation**	**Total**
Investment property	112,403,835	(1,121,269)	111,282,566

Value of land in investment property R 51 657 432 for both financial year presented	-	-

Notes to the Annual Financial Statement

Figures in Rand

3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	59,820,856	-	59,820,856	59,964,934	-	59,964,934
Buildings	145,568,962	(56,760,447)	88,808,515	145,725,909	(53,253,920)	92,471,989
Land - Landfill site	10,649,990	(2,501,701)	8,148,289	10,649,990	(1,250,851)	9,399,139
Work in progress	3,978,071	-	3,978,071	9,524,764	-	9,524,764
Infrastructure	906,032,167	(475,316,524)	430,715,643	873,893,186	(448,584,982)	425,308,204
Other property, plant and equipment	16,436,352	(4,476,272)	11,960,080	15,328,928	(3,757,260)	11,571,668
Leased Assets	403,606	(403,605)	1	403,606	(403,605)	1
Total	**1,142,890,004**	**(539,458,549)**	**603,431,455**	**1,115,491,317**	**(507,250,618)**	**608,240,699**

Reconciliation of property, plant and equipment - 2015

	Opening balance	**Additions**	**Disposals**	**Transfer to Property Plant and Equipment**	**Depreciation**	**Impairment loss**	**Total**
Land	59,964,934	-	(144,078)	-	-	-	59,820,856
Buildings	92,471,989	-	(82,172)	-	(3,581,302)	-	88,808,515
Land - Landfill site	9,399,139	-	-	-	(1,250,850)	-	8,148,289
Work In Progress	9,524,764	24,929,386	-	(30,476,079)	-	-	3,978,071
Infrastructure	425,308,204	32,138,981	-	-	(19,617,301)	(7,114,241)	430,715,643
Other property plant and Equipment	11,571,668	1,108,789	-	-	(695,326)	(25,051)	11,960,080
Leased assets	1	-	-	-	-	-	1
	608,240,699	**58,177,156**	**(226,250)**	**(30,476,079)**	**(25,144,779)**	**(7,139,292)**	**603,431,455**

Notes to the Annual Financial Statement

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfer to Property plana and Equipment	Depreciation	Impairment reversal	Total
Land	59,964,934	-	-	-	-	-	59,964,934
Buildings	96,052,838	-	-	-	(3,580,849)	-	92,471,989
Land - Landfill site	10,649,989	-	-	-	(1,250,850)	-	9,399,139
Work In Progress	(4,040,684)	32,111,977	-	(18,546,529)	-	-	9,524,764
Infrastructure	424,886,644	19,667,988	-	-	(19,246,428)	-	425,308,204
Other property, plant and equipment	12,214,164	1,490,094	(1,936,097)	-	(200,759)	4,266	11,571,668
Leased asset	1	-	-	-	-	-	1
	599,727,886	**53,270,059**	**(1,936,097)**	**(18,546,529)**	**(24,278,886)**	**4,266**	**608,240,699**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statement

Figures in Rand

4. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	1,728,146	(877,881)	850,265	1,298,939	(432,979)	865,960

Reconciliation of intangible assets - 2015

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	865,960	429,207	(444,902)	850,265

Reconciliation of intangible assets - 2014

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software, other	7,145	1,298,939	(7,145)	(432,979)	865,960

Notes to the Annual Financial Statement

Figures in Rand

5. Heritage assets

	2015			2014		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets	3,485,999	-	3,485,999	3,485,999	-	3,485,999

Reconciliation of heritage assets 2015

	Opening balance	**Total**
Heritage assets	3,485,999	3,485,999

Reconciliation of heritage assets 2014

	Opening balance	**Total**
Heritage assets	3,485,999	3,485,999

6. Other financial assets

Designated at fair value		
Unit trusts	716,487	651,835

Current assets		
Designated at fair value	716,487	651,835

Notes to the Annual Financial Statement

Figures in Rand	2015	2014

6. Other financial assets (continued)

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Unit Trust The valuation of the shares is based on the fair value of the unit price and number of shares obtained as at 30 June 2015. Number of shares held with Old Mutual 1 703.6571 and value per share is R4 205.581	716,487	651,835

7. Employee benefit obligations

Defined benefit plan

Post retirement benefit plan

Post retirement medical aid plan

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit method.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(19,306,000)	(18,380,000)
Increase/(Decrease in provision)	(969,000)	(926,000)
	(20,275,000)	**(19,306,000)**

Non-current liabilities	(16,082,000)	(17,543,000)
Current liabilities	(4,193,000)	(1,763,000)
	(20,275,000)	**(19,306,000)**

Valuation of assets

At the valuation date, the medical aid liability of the Municipality was unfunded i.e. no dedicated asset had been set aside to meet this liability.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(19,306,000)	(18,380,000)
Service cost	(544,000)	(513,000)
Interest rate	(1,785,000)	(1,312,000)
Benefits paid	794,000	571,000
Actuarial gain	566,000	328,000
	(20,275,000)	**(19,306,000)**

Notes to the Annual Financial Statement

Figures in Rand	2015	2014

7. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	(544,000)	(513,000)
Interest cost	(1,785,000)	(1,312,000)
Actuarial (gains) losses	566,000	328,000
Settlement	794,000	571,000
	(969,000)	**(926,000)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates (D)	9.31 %	9.44 %
Consumer Price Index (C)	6.92 %	6.97 %
Health care cost inflation (H)	8.42 %	8.47 %
Net discount rate ((1+D)/(1+H)-1)	0.82 %	0.89 %

Two most important financial variables used in our valuation are the discount and medical aid inflation rates

The medical aid inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate inflation. South Africa has experienced high health care cost inflation in recent years.

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

The methodogy of setting the financial assumption s has been updated to be more duration specific. At the previous valuation date, 30 June 201, the duration of the liabilities was 14.76 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2015 is 9.31% per annum.

At 30 June 2015 the yield on inflation-linked bonds of a similar term was about 1.77% per annum. This implies an underlying expectation of inflation of 6.92% per annuam (1+9.31%-0.50%)/(1+1.77%)-1), with a riskpremium adjustment for the uncertainty implicit in quaranteeing real increase (0.50%).

8. Inventories

Consumable stores	1,515,407	1,179,473
Water	84,435	450,601
	1,599,842	**1,630,074**

9. Other receivables from exchange transactions

Other debtors	1,760,343	3,462,207
Debtors for sale of stands	1,208,554	1,208,554
	2,968,897	**4,670,761**

10. Receivables from non-exchange transactions

Consumer debtors - Rates	7,829,842	15,340,587

Notes to the Annual Financial Statement

Figures in Rand	2015	2014

11. Consumer debtors

Gross balances		
Electricity	13,911,010	20,577,719
Water	63,206,748	69,894,117
Sewerage	30,263,997	33,400,795
Refuse	15,805,755	17,321,970
Other	93,455,653	36,519,410
	216,643,163	**177,714,011**
Less: Allowance for impairment		
Electricity	(7,251,556)	(9,358,902)
Water	(54,599,897)	(32,500,893)
Sewerage	(25,895,171)	(15,739,909)
Refuse	(15,275,394)	(8,173,968)
Other	(75,625,347)	(16,622,154)
	(178,647,365)	**(82,395,826)**
Net balance		
Electricity	6,659,454	11,218,817
Water	8,606,851	37,393,224
Sewerage	4,368,826	17,660,886
Refuse	530,361	9,148,002
Other	17,830,306	19,897,256
	37,995,798	**95,318,185**
Rates		
Current (0 -30 days)	1,545,227	-
31 - 60 days	1,364,808	1,470,676
61 - 90 days	1,886,978	1,185,104
91 - 120 days	1,110,988	26,392,004
121 - 180 days	630,651	-
> 180 days	28,576,515	-
	35,115,167	**29,047,784**
Electricity		
Current (0 -30 days)	3,868,360	187
31 - 60 days	823,970	2,323,990
61 - 90 days	402,817	1,370,856
91 - 120 days	558,425	16,882,686
121 - 180 days	197,376	-
> 180 days	8,060,062	-
	13,911,010	**20,577,719**
Water		
Current (0 -30 days)	3,508,586	-
31 - 60 days	3,018,372	1,230,095
61 - 90 days	1,557,708	1,058,271
91 - 120 days	4,751,196	67,605,751
121 - 180 days	1,171,356	-
> 180 days	49,199,530	-
	63,206,748	**69,894,117**

Notes to the Annual Financial Statement

Figures in Rand	2015	2014

11. Consumer debtors (continued)

Sewerage		
Current (0 -30 days)	885,696	255
31 - 60 days	748,243	1,074,647
61 - 90 days	672,284	916,675
91 - 120 days	639,397	31,409,218
121 - 180 days	618,763	-
> 180 days	26,699,614	-
	30,263,997	**33,400,795**

Refuse		
Current (0 -30 days)	523,300	356
31 - 60 days	444,861	946,250
61 - 90 days	398,388	817,663
91 - 120 days	381,704	15,557,700
121 - 180 days	368,579	-
> 180 days	13,688,923	-
	15,805,755	**17,321,969**

Other		
Current (0 -30 days)	3,127,415	727
31 - 60 days	3,122,878	1,137,252
61 - 90 days	1,964,391	984,360
91 - 120 days	2,844,926	34,397,071
121 - 180 days	2,043,586	-
> 180 days	80,352,457	-
	93,455,653	**36,519,410**

Consumers		
Current (0 -30 days)	7,748,761	1,339
31 - 60 days	8,354,351	6,526,467
61 - 90 days	6,486,343	5,761,758
91 - 120 days	9,917,831	153,435,425
121 - 180 days	4,750,552	-
> 180 days	194,556,773	-
Provision for debtors	(190,069,215)	(69,699,309)
	41,745,396	**96,025,680**

Industrial/ Commercial/ Agriculture		
Current (0 -30 days)	1,165,226	811
31 - 60 days	599,160	1,440,081
61 - 90 days	322,298	913,494
91 - 120 days	309,498	14,340,950
121 - 180 days	223,181	-
> 180 days	6,497,172	-
Provision for bad debt	(5,686,549)	(13,142,726)
	3,429,986	**3,552,610**

Notes to the Annual Financial Statement

Figures in Rand	2015	2014

11. Consumer debtors (continued)

National and Provincial Government		
Current (0 -30 days)	324,237	-
31 - 60 days	569,622	569,841
61 - 90 days	73,925	370,904
91 - 120 days	59,306	7,817,789
121 - 180 days	56,577	-
> 180 days	2,460,831	-
Provision for bad debt	(2,288,255)	(7,372,294)
	1,256,243	**1,386,240**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(90,214,329)	(56,291,424)
Contributions to allowance	(107,829,690)	(33,922,905)
	(198,044,019)	**(90,214,329)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	5,677,833	6,015,737
Short-term deposits	49,721,960	40,582,099
	55,399,793	**46,597,836**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book/ GL balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
First National Bank - Primary Account - 5418-0010-025	8,725,487	6,015,737	7,771,643	5,677,833	6,015,737	(10,159)
Fist National Bank - Money Market - 7441-8206-027	20,544,402	26,920,978	15,549,927	20,544,402	26,919,530	15,549,927
First National Bank - MIG - 7438-8117-704	47,906	12,306,644	19,755,365	47,906	12,306,644	19,755,365
First National Bank - FMG - 7438-8118-827	1,434,178	1,355,925	1,288,874	1,434,178	1,355,925	1,288,874
First National Bank - Money Market - 6231-5391-269	(2,393)	-	-	(1,446)	-	-
First National Bank - Account Type - 6209-2639-875	7,499,769	-	-	7,499,769	-	-
Standard Bank - Account Type - 038-749-688	20,197,151	-	-	20,197,151	-	-
Total	**58,446,500**	**46,599,284**	**44,365,809**	**55,399,793**	**46,597,836**	**36,584,007**

Notes to the Annual Financial Statement

Figures in Rand	2015	2014

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	2,364,333
Expanded Public Works Programme	-	174,251
Financial Management Grant	-	205,285
Municipal Systems Information Grant	435,292	-
Skills Development Grant	343,203	35,814
Intergrated National Electricification Programme	2,454	-
Disaster Management Grant	1,206,081	-
	1,987,030	**2,779,683**

The nature and extent of government grants recognised in the annual financial statement and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

14. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Provision for leave pay	5,067,877	1,417,377	6,485,254

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for leave pay	3,440,337	1,627,540	5,067,877

	-	-
Provision for leave pay	6,485,254	5,067,877
	6,485,254	**5,067,877**

The provision for leave pay was calculated on 30 June 2015 based on the number of days outstanding and cost to company as at 30 June 2015 for each employee entitled to leave.

15. Provision for rehabilitation of landfill site

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste deisposal. It is calculated as the present value of the future obligation, discounted at consumer price inflation, over the period of 0 to 14 years.

Notes to the Annual Financial Statement

	2015	2014

15. Provision for rehabilitation of landfill site (continued)

The landfill site provision has been raised based on four municipal landfill sites. The Municipality will incur licencing and rehabilitation costs of R19 710 784 to restore the landfill sites at the end of their useful lifes. As at 30 June 2015, this liability will be incurred over perior of 0 to 14 years. Provision has been raised for the net present value of the expenditure expected to be required to settle the obligation using the average cost of borring.

	2015	**2014**
Provision for landfill site	R 20 558 029	R 20 237 846
CURRENT LIABILITY		
Provision for landfill site	R 379 705	R 320 183
NON CURRENT LIABILITY		
Provision for landfill site	R 20 178 324	R19 917 663

16. Provision for water supply

Provision for water supply	R 76 131 933	R 65 278 181

17. Payables from exchange transactions

Trade payables	1,609,583	14,523,766
Retentions	1,573,359	3,378,371
Other accrued expenses	6,143,349	592,629
Other payables	15,861,470	7,056,792
Staff Bonus Accrual	1,515,697	1,499,535
	26,703,458	**27,051,093**

18. VAT payable

Tax refunds payables	2,590,118	161,688

19. Consumer deposits

Water and Electricity	1,629,117	4,655,350

20. Revenue

Service charges	93,140,227	80,787,703
Rental of facilities and equipment	21,627	21,059
Interest received (trading)	14,641,563	13,748,526
Fair value adjustment	64,651	169,886
Miscellaneous other revenue	2,529,566	3,594,551
Interest received - investment	3,088,656	2,617,873
Property rates	30,129,008	20,681,119
Property rates - penalties imposed	140	412
Government grants & subsidies	112,941,530	129,385,396
Fines, Penalties and Forfeits	577,897	915,548
License and Permits	5,713,506	5,133,133
	262,848,371	**257,055,206**

	2015	2014

20. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	93,140,227	80,787,703
Rental of facilities and equipment	21,627	21,059
Interest received (trading)	14,641,563	13,748,526
Fair value adjustment	64,651	169,886
Miscellaneous other revenue	2,529,566	3,594,551
Interest received - investment	3,088,656	2,617,873
	113,486,290	**100,939,598**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	30,129,008	20,681,119
Property rates - penalties imposed	140	412
Transfer revenue		
Government grants & subsidies	112,941,530	129,385,396
Fines, Penalties and Forfeits	577,897	915,548
License and permits	5,713,506	5,133,133
	149,362,081	**156,115,608**

21. Property rates

Rates billed

Residential	14,752,345	11,693,342
Commercial	7,255,296	4,583,019
State	787,563	1,557,232
Farmers	7,333,804	2,847,526
	30,129,008	20,681,119
Property rates - penalties imposed	140	412
	30,129,148	**20,681,531**

22. Service charges

Sale of electricity	44,491,904	43,792,292
Sale of water	30,380,000	14,500,985
Solid waste	6,752,925	11,424,232
Sewerage and sanitation charges	11,515,398	11,070,194
	93,140,227	**80,787,703**

Notes to the Annual Financial Statement

	2015	2014

23. Government grants and subsidies

	2015	2014
Operating grants		
Equitable Share	81,792,357	129,385,396
Financial Management Grant	1,805,285	-
Municipal Systems Improvement Grant	498,709	-
Expanded Public Works Programme	3,728,251	-
	87,824,602	129,385,396
Capital grants		
Municipal Infrastructure Grant	20,588,333	-
Municipal District Grant	1,531,049	-
Intergrated National Electrification Grant	2,997,546	-
	25,116,928	-
	112,941,530	**129,385,396**

Municipal Infrastructure Grant

	2015	2014
Balance unspent at beginning of year	2,364,333	15,005,589
Current-year receipts	18,224,000	30,606,000
Conditions met - transferred to revenue	(20,588,333)	(43,247,256)
	-	**2,364,333**

Expanded Public Works Programme Grant

	2015	2014
Balance unspent at beginning of year	174,251	29,496
Current-year receipts	3,554,000	3,072,000
Conditions met - transferred to revenue	(3,728,251)	(2,927,245)
	-	**174,251**

Finance Management Grant

	2015	2014
Balance unspent at beginning of year	205,285	751,134
Current-year receipts	1,600,000	1,550,000
Conditions met - transferred to revenue	(1,805,285)	(2,095,849)
	-	**205,285**

Municipal Systems Improvement Grant

	2015	2014
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(498,708)	(890,000)
	435,292	**-**

Skills Development Grant

	2015	2014
Balance unspent at beginning of year	35,815	94,912
Current-year receipts	307,388	117,730
Conditions met - transferred to revenue	-	(176,827)
	343,203	**35,815**

Intergrated National Electrification Programme

	2015	2014
Current-year receipts	3,000,000	-
Conditions met - transferred to revenue	(2,997,546)	-

Notes to the Annual Financial Statement

	2015	2014

23. Government grants and subsidies (continued)

	2,454	**-**

Disaster Management Grant

Current-year receipts	1,206,081	-

24. General expenses

	2015	2014
Advertising	174,644	361,196
Auditors remuneration	3,551,620	3,041,916
Bank charges	831,300	373,251
Cleaning	1,524,853	79,945
Consulting and professional fees	784,772	538,057
Consumables	-	6,034
Entertainment	54,926	87,744
Insurance	767,294	765,494
Medical aid contribution	675,804	591,547
Postage and courier	528,703	385,449
Printing and stationery	433,528	449,518
Security (Guarding of municipal property)	2,994,867	3,442,103
Subscriptions and membership fees	1,627,157	629,406
Telephone and fax	1,139,611	1,242,591
Training	219,237	462,494
Travel - local	1,115,001	1,003,831
Bursaries	53,368	45,897
Departmental consumption	945,062	7,477,334
Ward council members	1,174,000	1,155,000
Chemicals	2,544,900	1,833,825
Other expenses	12,693,630	5,989,127
	33,834,277	**29,961,759**

Notes to the Annual Financial Statement

	2015	2014

25. Employee related costs

	2015	2014
Basic	44,894,022	41,560,851
Bonus	3,199,147	2,961,733
Medical aid - company contributions	2,489,096	2,441,830
UIF	417,129	415,563
SDL	624,956	584,964
Leave pay provision charge	1,904,740	2,771,376
Contract workers	-	151,503
Barganing council levy	24,322	23,697
Defined contribution plans	9,270,695	9,089,893
Overtime payments	3,033,301	2,981,434
Housing benefits and allowances	199,391	138,437
Locomotion allowance	1,515,586	1,395,826
Standby allowance	3,467,551	635,143
	71,039,936	**65,152,250**

Remuneration of Municipal Manager

	2015	2014
Annual Remuneration	924,312	821,675
Travel, moter car, accommodation, subsistence and other	-	48,089
Contributions to UIF, Medical and Pension Funds	194,290	182,553
	1,118,602	**1,052,317**

Remuneration of Chief Finance Officer

	2015	2014
Annual Remuneration	297,287	619,936
Travel, moter car, accommodation, subsistence and other	64,167	96,566
Contributions to UIF, Medical and Pension Funds	69,789	103,500
Other	129,410	-
	560,653	**820,002**

Remuneration of the Technical Services

	2015	2014
Annual Remuneration	661,456	561,462
Travel, moter car, accommodation, subsistence and other	84,000	104,154
Contributions to UIF, Medical and Pension Funds	151,081	130,956
	896,537	**796,572**

Remuneration of the Community Services

	2015	2014
Annual Remuneration	664,392	617,940
Car Allowance	84,000	84,000
Contributions to UIF, Medical and Pension Funds	148,145	141,466
	896,537	**843,406**

Remuneration of the Corporate Services

	2015	2014
Annual Remuneration	615,414	566,270
Travel, moter car, accommodation, subsistence and other	118,500	124,230
Contributions to UIF, Medical and Pension Funds	162,623	152,907
	896,537	**843,407**

Notes to the Annual Financial Statement

	2015	2014

26. Remuneration of councillors

	2015	2014
Executive Mayor	758,677	719,646
Mayoral Committee Members	1,126,680	1,059,247
Speaker	599,264	563,129
Councillors	4,497,321	4,175,250
	6,981,942	**6,517,272**

Termination

Name	Date	Reason
Hlakutse NE	10 June 2015	Death

Remuneration of councillors is based on Government Gazzete 38608, dated 25 March 2015.

27. Debt impairment

	2015	2014
Debt impairment	132,912,491	35,492,868

28. Investment revenue

	2015	2014
Interest revenue		
Bank	3,088,656	2,617,873

29. Depreciation and amortisation

	2015	2014
Property, plant and equipment	31,001,750	25,126,639
Investment property	1,174,049	-
Intangible assets	444,902	-
Land - Landfill site	1,250,851	1,250,851
	33,871,552	**26,377,490**

30. Auditors' remuneration

	2015	2014
Fees	3,551,620	3,041,916

31. Contracted services

	2015	2014
Other Contractors	3,343,842	5,888,788

32. Grants and subsidies paid

	2015	2014
Grants and subsidies		
Grants and subsidies	-	2,030,111
Total Grants and subsidies	-	2,030,111

33. Bulk purchases

	2015	2014
Electricity	36,771,118	34,704,375
Water	12,074,771	8,023,954
	48,845,889	**42,728,329**

Notes to the Annual Financial Statement

	2015	2014

34. Cash generated from operations

	2015	2014
(Deficit) surplus	(77,465,776)	31,174,189
Adjustments for:		
Depreciation and amortisation	33,871,552	26,377,490
Gain on sale of assets and liabilities	263	1,902,584
Traffic fines	(569,472)	(915,548)
Debt impairment	132,912,491	35,492,868
Movements in retirement benefit assets and liabilities	969,000	926,000
Transfers and subsidies	-	2,030,111
Interest	(12,897,966)	(12,967,568)
Bulk purchases raised	(7,740,429)	7,740,429
Fair value ajustment on Other Assets	(64,651)	(169,886)
Changes in working capital:		
(Increase) / Decrease in inventories	(127,713)	(775,941)
(Increase) / Decrease in receivables from exchange transactions	(29,271,978)	(44,048,437)
(increase) / Decrease in other receivables	1,701,864	(3,764,680)
(Increase) / Decrease in receivables from non-exchange transactions	(6,067,383)	(13,512,948)
(Increase) / Decrease payables from exchange transactions	1,738,091	6,558,294
	36,987,893	**36,046,957**

35. Commitments

Authorised capital expenditure

	2015	2014
Already contracted for but not provided for		
• Operating	25,051,705	-
• Infrastructure Assets	-	17,781,721
	25,051,705	**17,781,721**

	2015	2014
Total capital commitments		
Already contracted for but not provided for	25,051,705	17,781,721

Notes to the Annual Financial Statement

	2015	2014

36. Contingencies

Claim for damages (Nicolas Soldatos)	**10 099 995**	**10 099 995**

Legal proceedings have been instituted against the municipality over the death of Nicolas Soldatos, who has left three dependants behind.

Claim for service rendered (Human Broers Beherend)	**73 071**	**73 071**

Legal proceeding instituted against the Municipality by Human Broeers regarding unpaid due for work performed for the Municipality

Claim for damages (Unmarked bridge)	**56 200**	**56 200**

Claim for damages caused as a result of an unmarked bridge and road works by Barry Roberts

Gabriel Michael claim	**29 190**	**29 190**

Gabriel Michael Du Toit is claimimg from the municipality. The matter is awaiting a court date

Claim by AfriForum from the Municipality for non disclosure of information. The amount of the claim is not known at this stage. The parties are awaiting a court date.

The invoice for Ulwazi Protection Services is contested by the Municipality on the basis of the hours submitted and the amount. the Municipality beleives the probability of paying the exact amount is remote and that if the amount is paid, it will be of a lesser invoice.

	90 997	**90 997**

Contingent assets

The Municipality has made a claim against JF Buthelezi for misappropriation of funds. The Municipality is of the opinion that the amount are probable to be recoverable. The amount is R1 358 730 which is similar prior financial year as at 30 June 2014.

JF Buthelezi	**1 358 730**	**1 358 730**

	2015	2014

37. Related parties

Relationships
Employees:

Nonhlanhla Patiance Mnisi	25 % shareholding in Zimele Catering CC
Patrick Mzimkhulu Kunene	33.33 % shareholding in Izingcithabuchopho Construction and Catering

Related party transactions

Catering Services		
Izingcithabuchopho Contruction and Catering	12,637	-
Zimele Catering CC	6,300	-

Employee related dosclosure and councillors has been disclosused under employee cost

38. Prior period errors

Unspend conditional grant
Prior annual financial statement have recognised MIG revenue based on the completed projects not amount spend from the financial year. The revenue has to be recognised as the conditions have been met which is spending on MIG approved projects as submitted to COGTA before beginning of the financial year. Hence uncompleted projects will still be reflecetd as Work In Progress in the annual financial statement.

Decrease in Unspend conditional grant	(35 697 096)
Increase in Government Grant and subsidies	34 395 867
Impact on opening balance of 2012/2013	1 301 229

Inventory
Inventory was incorrectly classified as investment pproperties in previous financial year 2013/2014. The vacant land has been identified for residential purposes and based on GRAP 16 paragraph 67 - change should be when and only when , there is a change in use, evidenced by commencement of development with view to sell. Since no development has commenced the land will be classified as Investment Property as it will not sell within the next twelve months

Increase investment Properties	R 48 531 477
Decrease in Inventory	(R 48 687 529)
Decrease in accumulated surplus	R156 052

Notes to the Annual Financial Statement

	2015	2014

38. Prior period errors (continued)

Trade Receivables
Revenue was billed based on estimates and actual meter reading has been performed. The adjustment has been made to adjust the revenue that relates to prior financial year and debtors allocated to previous financial year.

Increase in service charges	(R 1 496 238
Increase in debtors from exchange revenue	R 1 496 238

Capitalised debt that is reflected in the debtors age analysis was not acounted for in the prior year annual financial statement. Adjustment has been made in the comparative figures of prior annual financial statement.

Increase in debtors from exchange transactions	R 6 858 281
Increase in accumulated surplus	(R 6 858 281

Rental revenue has been incorrectly classified under receivables from previous financial year, Hence other income and debtors have been understated in previous financial statement

Increase in receivables	R1 302 643
Increase in other revenue	(R1 302 643)

Other receivables from exchange transactions
Cash suspense accounts not cleared and presented as other receivables from exchange transaction and payables from exchange transactions in the prior annual finanncial statement.

Decrease in other receivables from exchange transactions	(R 5 295 103.02)
Decrease in payables from exchange transactions	R 6 132 926.09
Increase in accumulated suplus	(R 837 823.07)

Property plan and equipment
Assets incorrectly not capitalised in prior financial year have been capitalised. Assets not included in the fixed asset register have been identified and included.

Increase in cost - Property plan and equipment	R 1 301 868
Increase in Accumulated depreciation - Property plan and equipment	(R 505 988)
Increase in accumulated surplus	(R 795 880)

Investment Properties
Land that was in valuation roll and previously not included in the investment register. The investent register has been updated to included the properties.

Increase in investment properties	R 715 800
Increase in Accumuled Surplus	(R 715 800)

Heritage assets
Heritage assets have been revalued and brought in the annual financial statement as at 01 July 2013. They were previously held value of R1

Increase in heritage assets	R 3 485 997
Increase in accumulated surplus	(R 3 485 997)

Work In Progress
Assets that were completed and capitalsed but the not derecognised from Work In Progress. The adjustment is to ensure that the remaining Work In Progress is onlt the incompleted projects as at 30 June 2015.

Decrease in Work In Progress	(R 25 980 479
Decrease in Accumulated Surplus	R 25 980 479

Post employment benefit obligation

Notes to the Annual Financial Statement

	2015	2014

38. Prior period errors (continued)

the Municipality has been paying medical aid for the retired employees but no obligation was provided in the previous annual financial statement. The adjustment is recognisng the obligation in previous years.

Decrease in Accumulated surplus	R19 306 000
Increase in post employment benefit obligation	(R19 306 000

Landfill site provision

Provision has been provided on one landfill site than four municipal landfill site. Other landfill site provision has been restated to previous financial year.

Increase in landfill site - Curent liabilities	(R 320 183)
Increase in landfill site - Non current liabilities	(R 19 917 663)
Decrease in accumulated surplus	R 7 905 720

Land not recognised when recognising the landfill site provision	
Increase in Land - Landfill site	R 10 649 990
Increase in accumulated Surplus	(R 1 250 850)

Provision for water supply

Water suppleid by Department of Water and Sanitation that was previously disclosed as contingent liability

Decrease in accumulated surplus	R 54 437 228
Increase in provision	(R 54 437 228)

Depreciation and amortisation

Depreciation for landfill site that was not accounted for in the previous financial year. The other adjustment in the Property Plan and equipment that was not recognised or removed from the fixed asset register.

Increase in depreciation and amortisation	R 1 971 238
Increase in accumulated depreciation and amortisation	(R 1 756 838
Increase in accumulated suplus	(R 214 400)

Service Charges

Correction of water and electricity billing revenue from estimates to actual revenue based on the actual reading	
Decrease in service charges	R 1 496 241
Increase in Receivables from exchange transaction	(R 1 496 241

Debt Impairment

Subsequent measurement for traffic fines not determined, presented and disclosed in the prior year annual financial statement	
Increase in impairment	R 326 108
Increase in accumulated surplus	(R 326 108

Employee cost

Decrease in employee cost due to over provision for bonus in prior annual financial statement

Decrease in employee cost	(R 1 573 559)
Increase in accumulated surplus	R 1 573 559
	-

Notes to the Annual Financial Statement

	2015	2014

38. Prior period errors (continued)

Statement of financial position

Assets		
Property, plant and equipment	-	10,183,464
Investment property	-	49,247,277
Inventory	-	(48,687,529)
Heritage assets	-	3,485,997
Work in progress	-	(25,980,479)
Receivables from exchange transactions	-	9,657,174
Other receivables from exchange transactions	-	(5,621,215)
Liabilities	-	-
Payables from exchange transactions	-	10,793,442
Unspend conditional grant	-	35,697,096
Provision for rehabilitation	-	(17,304,860)
Post Employment benefit Obligation	-	(19,306,000)
Provision for water supply	-	(54,437,228)
Net assets	-	-
Realisation of revaluation reserve	-	(11,779,017)
Opening Accumulated Surplus	-	(64,051,878)

Statement of Financial Performance

Revenue		
Other Income	-	(1,302,643)
Government grant and subsidies	-	(34,395,867)
Service charges	-	(1,496,238)
Expenses	-	-
Depreciation expense	-	1,971,931
Debt Impairment	-	326,108
Actuarial gains	-	(328,000)
Bulk purchases	-	7,740,429
Loss on disposal of assets	-	1,902,584
Employee cost	-	(1,425,948)
Other expenses	-	1,573,559
Accumulated surplus	-	(25,434,085)

39. Comparative figures

Certain comparative figures have been reclassified.

Reclassified repair and maitenance from general expenditure.

The effects of the reclassification are as follows:

Statement of Financial Performance		
Repairs and Maintenance	-	98,573
General expenses	-	(98,573)

40. Risk management

Financial risk management

The risk of the municipality consist mainly of cash deposits, cash equivalents and consumer deposits. The municipality only deposits cash with major banks register in South Africa with high quality credit standing and limits exposure to any one counter party. All the deposits are short term in nature to ensure municipality cash flow is not affected.

Consumer debtors comprise a widespread community base, industrial and government consumers. Municipality manages its credit risk through payment of deposits and disconnection of services in the cases of non-payments.

Financial assets exposed to credit risk at year were as follows:

	2015 R	2014 R
Cash and cash equivalents		
First National Bank	R 38 249 349	R 46 599 284
Standard Bank of South Africa	R 20 197 000	R 0
Consumer Debtors		
Consumer debtors	R 45 825 640	R 110 658 772

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The municipality has healthy liquity status as current assets exceed the current liabilities. Regardless of other current assets, the municipality has actual cash that exceed the current liabilities. The below is the net current assets of the municipality by financial year end.

	2015 R	2014 R
Current assets	R 106 510 659	R 164 209 278
Current liability	(R 43 967 682)	(R 41 798 874)

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. The municipality will be affected by interest rate change only the interest charged to cinsumers which is based on prime rate could be affected.

41. Going concern

The annual financial statement have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statement

	2015	2014

42. Fruitless and wasteful expenditure

	2015	2014
Interest on late payment	11,348	54,750
Tracker and licence payment on cars	-	19,704
	11,348	**74,454**

43. Irregular expenditure

	2015	2014
Opening balance	10,072,201	6,120,134
Add: Irregular Expenditure - current year	22,065,254	3,952,067
Less: Amounts written off	(6,120,134)	-
	26,017,321	**10,072,201**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Employee of the state	Suppliers have been blacklisted	871,283
SCM process not followed	Investigation to be undertaken	21,193,971
		22,065,254

Details of irregular expenditure recoverable (not written -off)

Irregular expenditure under investigation from 2013/2014	3,952,067
Irregular expenditure under investigation from 2014/2015	22,065,254
	26,017,321

44. Additional disclosure in terms of Municipal Finance Management Act

Material losses in percentage

	2015	2014
Water material losses in percentage	26%	45%
Electricity material loss in percentages	43.63%	21.7%
	-	-

Distribution loss for water and electricity has been restated and corrected based on the best estimate between the units purchased and units sold during both financial years

Audit fees

	2015	2014
Amount paid - current year	3,551,620	3,041,916

PAYE and UIF

	2015	2014
Opening balance	582,721	632,985
Current year subscription / fee	8,890,422	7,622,642
Amount paid - current year	(9,473,143)	(7,672,906)
	-	**582,721**

Notes to the Annual Financial Statement

	2015	2014

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

	2015	2014
VAT payable	2,590,118	161,688

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015		Outstanding more than 90 days	Total
MS Mndebele	-	952	952
MS Motha	-	20	20
OT Ngwenya	-	6,304	6,304
ZH Luhlanga	-	89	89
TE Mbokane	-	105	105
EM Madonsela	-	1,800	1,800
	-	**9,270**	**9,270**

30 June 2014		Outstanding more than 90 days	Total
TP Dakile	-	3,704	3,704
ZH Luhlanga	-	5,709	5,709
EM Madonsela	-	16,737	16,737
FJ Mazibuko	-	2,200	2,200
PM Mazibuko	-	184	184
TE Mbokane	-	3,349	3,349
BJ Mhlanga	-	1,003	1,003
MS Mndebele	-	17,225	17,225
OT Shabangu	-	1,555	1,555
	-	**51,666**	**51,666**

	2015	2014

45. Deviation from supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Deviations of amouting to R 137 941 was subsequently written off by council during the financial year. The detailed register of deviations is available for inspection at the office of the Municipal Manager.

Incidents		
Emergency services	R 111 549	R 691 674
Impracticality or impossible to follow process	R 2 258	R193 626
Sole provider	R24 134	R421 054

46. Budget differences

Material differences between budget and actual amounts

46. Budget differences (continued)

Material differences between the budget and actual amounts

All budget fluctuations above 10% in comparision to actual results for the year were considered material by management and explained below:

1, Service charges
The variance is due to budget amount determined based on estimated revenue in the prior year financial year.

2. Rentals o facilities
Actual rental of facilities is around R30 thousand and management have over budgeted on the rentals. Rentals of facilities was not as budgeted in the financial year

3. Interest received - Investment
Delay on implementation of MIG projects in the financial year, the funds were invested during that prior of non-implementation hence the interest received been higher than the budgeted interest amount

4. Interest received - Trading
Interest has increased due to none payment of services. Management budgeted considering that consumers will utilise the incentive programmes and that outstanding consumer debt will be reduced.

5. Other revenue
There was auction in prior financial year, since there was no auction in the current financial year. Hence the actual amount is below the budgeted amount.

6. Government grant and subsidies
Municipality has not received all equitable shares as gazetted. There is amount of R13.1 million that was not transferred due to municipal funds spending as at second quarter but subsequently all funds received have been spend as intented.

7. Licences and Permits
The money received for licences and permitts commission was below the anticipated revenue by 31.7%

8. Employee related cost
Variance between the budgetted amount and the actual employee cost is 10.4%. The variance is due to the fact that terminations were not filled in the current financial year.

9. Repairs and maintenance
Management has increased repairs and maintancence during budget adjustment for war on leaks and maintanence of bore holes. The variance of 52.3% has been realised

10. General expenses
General expenditure has variance of 26.7% and the none spending compared to budget was due to cash flow constraints during the financial year

Unaudited Schedule
Dr. Pixley Isaka Ka Seme Local Municipality
Appendix A
June 2015

Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation					Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings											
Land (Separate for AFS purposes)	59,964,934	-	(144,078)	-	**59,820,856**	-	-	-	-	**-**	59,820,856
Landfill Sites (Separate for AFS pursoses)	10,649,989	-	-	-	**10,649,989**	(1,250,850)	-	(1,250,850)	-	**(2,501,700)**	8,148,289
Buildings (Separate for AFS purposes)	145,725,908	-	(156,947)	-	**145,568,961**	(53,253,921)	74,776	(3,581,302)	-	**(56,760,447)**	88,808,514
	216,340,831	**-**	**(301,025)**	**-**	**216,039,806**	**(54,504,771)**	**74,776**	**(4,832,152)**	**-**	**(59,262,147)**	**156,777,659**
Infrastructure											
Roads, Pavements & Bridges	372,014,455	-	-	-	**372,014,455**	(195,081,231)	-	(7,471,419)	(6,961,975)	**(209,514,625)**	162,499,830
Water	325,768,938	29,509,555	-	-	**355,278,493**	(167,607,778)	-	(6,922,680)	(33,601)	**(174,564,059)**	180,714,434
Electricity	176,109,795	2,629,426	-	-	**178,739,221**	(85,895,974)	-	(5,223,203)	(118,665)	**(91,237,842)**	87,501,379
	873,893,188	**32,138,981**	**-**	**-**	**906,032,169**	**(448,584,983)**	**-**	**(19,617,302)**	**(7,114,241)**	**(475,316,526)**	**430,715,643**
Work in Progress											
Infrastructure	9,524,764	24,929,386	-	(30,476,079)	**3,978,071**	-	-	-	-	**-**	3,978,071
	9,524,764	**24,929,386**	**-**	**(30,476,079)**	**3,978,071**	**-**	**-**	**-**	**-**	**-**	**3,978,071**

Unaudited Schedule
Dr. Pixley Isaka Ka Seme Local Municipality
Appendix A
June 2015

Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation					Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets											
Other	3,485,999	-	-	-	**3,485,999**	-	-	-	-	-	3,485,999
	3,485,999	**-**	**-**	**-**	**3,485,999**	**-**	**-**	**-**	**-**	**-**	**3,485,999**
Other assets											
Communication Equipment	11,307	-	-	-	**11,307**	(3,429)	-	(779)	(38)	**(4,246)**	7,061
Fire Fighting and Safety Equipment	26,261	-	-	-	**26,261**	(12,507)	-	(2,186)	(479)	**(15,172)**	11,089
Garden Equipment and tools	32,298	-	-	-	**32,298**	(11,501)	-	(2,979)	(558)	**(15,038)**	17,260
IT Equipment	644,348	383,104	-	-	**1,027,452**	(330,572)	-	(74,412)	(1,827)	**(406,811)**	620,641
Kitchen Equipment	171,466	178	-	-	**171,644**	(75,564)	-	(14,244)	(451)	**(90,259)**	81,385
Maintenance Equipment	254,712	70,180	-	-	**324,892**	(129,186)	-	(22,299)	(277)	**(151,762)**	173,130
Sports Equipment	7,625	-	-	-	**7,625**	(2,176)	-	(763)	-	**(2,939)**	4,686
Office Equipment	533,844	34,626	-	-	**568,470**	(189,821)	-	(84,961)	(10,773)	**(285,555)**	282,915
Furniture and Fittings	1,953,161	112,057	-	-	**2,065,218**	(944,836)	-	(173,368)	(10,648)	**(1,128,852)**	936,366
Motor Vehicles	11,692,541	508,644	-	-	**12,201,185**	(2,057,668)	-	(317,970)	-	**(2,375,638)**	9,825,547
	15,327,563	**1,108,789**	**-**	**-**	**16,436,352**	**(3,757,260)**	**-**	**(693,961)**	**(25,051)**	**(4,476,272)**	**11,960,080**

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Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation					Accumulated depreciation					
	Opening Balance Rand	**Additions Rand**	**Disposals Rand**	**Transfers Rand**	**Closing Balance Rand**	**Opening Balance Rand**	**Disposals Rand**	**Depreciation Rand**	**Impairment loss Rand**	**Closing Balance Rand**	**Carrying value Rand**
Total property plant and equipment											
Land and buildings	216,340,831	-	(301,025)	-	**216,039,806**	(54,504,771)	74,776	(4,832,152)	-	**(59,262,147)**	156,777,659
Infrastructure	873,893,188	32,138,981	-	-	**906,032,169**	(448,584,983)	-	(19,617,302)	(7,114,241)	**(475,316,526)**	430,715,643
Work in Progress	9,524,764	24,929,386	-	(30,476,079)	**3,978,071**	-	-	-	-	**-**	3,978,071
Heritage assets	3,485,999	-	-	-	**3,485,999**	-	-	-	-	**-**	3,485,999
Other assets	15,327,563	1,108,789	-	-	**16,436,352**	(3,757,260)	-	(693,961)	(25,051)	**(4,476,272)**	11,960,080
	1,118,572,345	**58,177,156**	**(301,025)**	**(30,476,079)**	**1,145,972,397**	**(506,847,014)**	**74,776**	**(25,143,415)**	**(7,139,292)**	**(539,054,945)**	**606,917,452**
Intangible assets											
Other	1,298,939	429,207	-	-	**1,728,146**	(432,979)	-	(444,902)	-	**(877,881)**	850,265
	1,298,939	**429,207**	**-**	**-**	**1,728,146**	**(432,979)**	**-**	**(444,902)**	**-**	**(877,881)**	**850,265**
Investment properties											
Investment property	112,403,835	-	-	-	**112,403,835**	(1,121,269)	-	(1,174,049)	-	**(2,295,318)**	110,108,517
	112,403,835	**-**	**-**	**-**	**112,403,835**	**(1,121,269)**	**-**	**(1,174,049)**	**-**	**(2,295,318)**	**110,108,517**
Total											
Land and buildings	216,340,831	-	(301,025)	-	**216,039,806**	(54,504,771)	74,776	(4,832,152)	-	**(59,262,147)**	156,777,659
Infrastructure	873,893,188	32,138,981	-	-	**906,032,169**	(448,584,983)	-	(19,617,302)	(7,114,241)	**(475,316,526)**	430,715,643
Work in Progress	9,524,764	24,929,386	-	(30,476,079)	**3,978,071**	-	-	-	-	**-**	3,978,071
Heritage assets	3,485,999	-	-	-	**3,485,999**	-	-	-	-	**-**	3,485,999
Other assets	15,327,563	1,108,789	-	-	**16,436,352**	(3,757,260)	-	(693,961)	(25,051)	**(4,476,272)**	11,960,080
Intangible assets	1,298,939	429,207	-	-	**1,728,146**	(432,979)	-	(444,902)	-	**(877,881)**	850,265
Investment properties	112,403,835	-	-	-	**112,403,835**	(1,121,269)	-	(1,174,049)	-	**(2,295,318)**	110,108,517
	1,232,275,119	**58,606,363**	**(301,025)**	**(30,476,079)**	**1,260,104,378**	**(508,401,262)**	**74,776**	**(26,762,366)**	**(7,139,292)**	**(542,228,144)**	**717,876,234**

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Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation					Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings											
Land (Separate for AFS purposes)	59,964,934	-	-	-	**59,964,934**	-	-	-	-	**-**	59,964,934
Landfill Sites (Separate for AFS pursoses)	10,649,989	-	-	-	**10,649,989**	-	-	(1,250,851)	-	**(1,250,851)**	9,399,138
Buildings (Separate for AFS purposes)	145,725,908	-	-	-	**145,725,908**	(49,673,070)	-	(3,580,851)	-	**(53,253,921)**	92,471,987
	216,340,831	**-**	**-**	**-**	**216,340,831**	**(49,673,070)**	**-**	**(4,831,702)**	**-**	**(54,504,772)**	**161,836,059**
Infrastructure											
Roads, Pavements & Bridges	369,054,465	2,959,989	-	-	**372,014,454**	(187,640,790)	-	(7,440,441)	-	**(195,081,231)**	176,933,223
Water	316,432,838	9,336,100	-	-	**325,768,938**	(160,945,904)	-	(6,661,873)	-	**(167,607,777)**	158,161,161
Electricity	168,737,895	7,371,899	-	-	**176,109,794**	(80,751,860)	-	(5,144,114)	-	**(85,895,974)**	90,213,820
	854,225,198	**19,667,988**	**-**	**-**	**873,893,186**	**(429,338,554)**	**-**	**(19,246,428)**	**-**	**(448,584,982)**	**425,308,204**
Work In Progress											
Infrastructure	(4,040,684)	32,111,977	-	(18,546,529)	**9,524,764**	-	-	-	-	**-**	9,524,764
	(4,040,684)	**32,111,977**	**-**	**(18,546,529)**	**9,524,764**	**-**	**-**	**-**	**-**	**-**	**9,524,764**

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Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation					Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets											
Other	3,485,999	-	-	-	**3,485,999**	-	-	-	-	-	3,485,999
	3,485,999	**-**	**-**	**-**	**3,485,999**	**-**	**-**	**-**	**-**	**-**	**3,485,999**
Other assets											
Communication Equipment	12,187	-	(880)	-	**11,307**	(3,000)	440	(871)	3	**(3,428)**	7,879
Fire Fighting and Safety Equipment	32,587	-	(6,326)	-	**26,261**	(13,550)	3,160	(2,139)	22	**(12,507)**	13,754
Garden Equipment	66,740	38,760	(73,202)	-	**32,298**	(24,103)	19,630	(7,141)	112	**(11,502)**	20,796
IT Equipment	729,920	145,443	(231,015)	-	**644,348**	(307,957)	47,118	(72,910)	3,177	**(330,572)**	313,776
Kitchen Equipment	186,855	176	(15,564)	-	**171,467**	(68,323)	7,525	(15,271)	504	**(75,565)**	95,902
Maintenance Equipment	775,281	5,438	(526,006)	-	**254,713**	(320,256)	261,148	(70,078)	-	**(129,186)**	125,527
Sports Equipment	7,625	-	-	-	**7,625**	(1,414)	-	(762)	-	**(2,176)**	5,449
Office Equipment	563,169	23,305	(52,630)	-	**533,844**	(175,553)	25,652	(40,368)	448	**(189,821)**	344,023
Furniture and Fittings	2,068,946	9,763	(125,549)	-	**1,953,160**	(825,921)	53,284	(172,199)	-	**(944,836)**	1,008,324
Motor Vehicles	12,230,711	1,267,209	(1,805,380)	-	**11,692,540**	(2,721,145)	482,498	180,980	-	**(2,057,667)**	9,634,873
	16,674,021	**1,490,094**	**(2,836,552)**	**-**	**15,327,563**	**(4,461,222)**	**900,455**	**(200,759)**	**4,266**	**(3,757,260)**	**11,570,303**

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Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation					Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment											
Land and buildings	216,340,831	-	-	-	**216,340,831**	(49,673,070)	-	(4,831,702)	-	**(54,504,772)**	161,836,059
Infrastructure	854,225,198	19,667,988	-	-	**873,893,186**	(429,338,554)	-	(19,246,428)	-	**(448,584,982)**	425,308,204
Work In Progress	(4,040,684)	32,111,977	-	(18,546,529)	**9,524,764**	-	-	-	-	**-**	9,524,764
Heritage assets	3,485,999	-	-	-	**3,485,999**	-	-	-	-	**-**	3,485,999
Other assets	16,674,021	1,490,094	(2,836,552)	-	**15,327,563**	(4,461,222)	900,455	(200,759)	4,266	**(3,757,260)**	11,570,303
	1,086,685,365	**53,270,059**	**(2,836,552)**	**(18,546,529)**	**1,118,572,343**	**(483,472,846)**	**900,455**	**(24,278,889)**	**4,266**	**(506,847,014)**	**611,725,329**
Intangible assets											
Computers - software & programming	7,145	1,298,939	(7,145)	-	**1,298,939**	-	-	(432,979)	-	**(432,979)**	865,960
	7,145	**1,298,939**	**(7,145)**	**-**	**1,298,939**	**-**	**-**	**(432,979)**	**-**	**(432,979)**	**865,960**
Investment properties											
Investment property	112,403,835	-	-	-	**112,403,835**	-	-	(1,121,269)	-	**(1,121,269)**	111,282,566
	112,403,835	**-**	**-**	**-**	**112,403,835**	**-**	**-**	**(1,121,269)**	**-**	**(1,121,269)**	**111,282,566**
Total											
Land and buildings	216,340,831	-	-	-	**216,340,831**	(49,673,070)	-	(4,831,702)	-	**(54,504,772)**	161,836,059
Infrastructure	854,225,198	19,667,988	-	-	**873,893,186**	(429,338,554)	-	(19,246,428)	-	**(448,584,982)**	425,308,204
Work In Progress	(4,040,684)	32,111,977	-	(18,546,529)	**9,524,764**	-	-	-	-	**-**	9,524,764
Heritage assets	3,485,999	-	-	-	**3,485,999**	-	-	-	-	**-**	3,485,999
Other assets	16,674,021	1,490,094	(2,836,552)	-	**15,327,563**	(4,461,222)	900,455	(200,759)	4,266	**(3,757,260)**	11,570,303
Intangible assets	7,145	1,298,939	(7,145)	-	**1,298,939**	-	-	(432,979)	-	**(432,979)**	865,960
Investment properties	112,403,835	-	-	-	**112,403,835**	-	-	(1,121,269)	-	**(1,121,269)**	111,282,566
	1,199,096,345	**54,568,998**	**(2,843,697)**	**(18,546,529)**	**1,232,275,117**	**(483,472,846)**	**900,455**	**(25,833,137)**	**4,266**	**(508,401,262)**	**723,873,855**